



Strengths WithInn

InnVest Real Estate Investment Trust 2002 Annual Report

Corporate Profile

InnVest Real Estate Investment Trust (“InnVest”) was established in January 2002 as an open-ended real estate investment trust (“REIT”). It went public in July 2002 with a \$300 million offering of units which are listed on the Toronto Stock Exchange (symbol: INN.UN)

InnVest owns the largest hotel portfolio in Canada and has a 50% interest in Choice Hotels Canada, the largest franchisor of hotels in Canada. The REIT owns 114 internationally branded, limited service or mid-scale full service hotels located in every province of Canada (the “hotel portfolio”). The hotel portfolio includes 98 hotels flagged with Choice brands (Comfort Inn®, Quality Inn®, Quality Hotel® and Quality Suites®), 13 under the Travelodge® banner and the remaining three flagged with Best Western®, Holiday Inn Express® and Ramada Inn® brands.

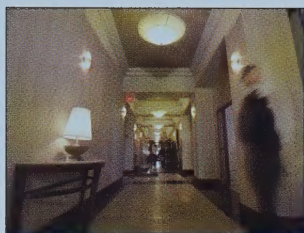
The relationship with Choice Canada gives InnVest access to one of the strongest global reservation and marketing networks. The manager of InnVest’s hotels, Westmont Hospitality Canada Limited, has managed the portfolio acquired by InnVest, achieving superior returns relative to the industry. Through strategic relationships, InnVest is well positioned to identify attractive acquisitions in the limited service sector of Canada’s hotel industry.

Objectives

InnVest has two primary objectives: (1) to provide Unitholders with stable and growing cash distributions, payable monthly, principally from the ownership of limited service hotels; and (2) to maximize the long-term unit value of the REIT by continuing to actively manage the hotel assets and to make selective acquisitions that are accretive to earnings and cash flow.

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InnVest is well positioned to provide Unitholders with stable income throughout the economic cycle while increasing the income stream over time. InnVest has a number of competitive strengths that position it to outperform the limited service sector of the hotel industry – the best performing and least cyclical sector of the hotel industry in recent years. InnVest's strengths include:

High quality properties

with the leading position in the limited service sector and the largest hotel portfolio in Canada

International brands

which provide name recognition and a strong central reservation system, driving revenue per available room

Portfolio diversity

with hotel properties across the country and a mix of business and leisure customers, contributing to performance stability

Experienced management

with a record of outperforming the limited service sector and the hotel industry overall

Well balanced capital structure

with conservative financial leverage and unutilized credit facilities, providing management flexibility to achieve performance objectives

57.5%* Comfort Inn



Comfort Inn is Canada's leading limited service hotel brand as measured by number of locations, with 132 locations in Canada (including the Comfort Inns in the hotel portfolio) and more than 1,750 locations worldwide. InnVest REIT is the largest owner of Comfort Inns in Canada, with approximately 60% of locations, providing substantial economies of scale.

Comfort Inns are typically two-storey, interior corridor buildings located in suburban areas with easy access to primary highways. The Comfort Inns in the hotel portfolio range in size from 59 to 147 guest rooms. Guest room amenities generally include cable/satellite television, in-room movies, work desks and data ports. Hotel amenities typically include a breakfast room and meeting space.

25.9%* Quality Suites / Quality Inns



The Quality Suites/Quality Inns in the hotel portfolio are typically located in urban downtown or airport locations.

The Quality Suites/Quality Inns in the hotel portfolio range in size from 96 to 254 suites or guest rooms. Suites generally consist of two rooms of approximately 460 square feet in total area. Bedroom amenities typically include king-size beds, cable/satellite television, in-room movies, hair dryers, data ports and separate dressing areas with a mirrored vanity and closet. Living room amenities typically include a pull-out sofa bed, a large work table, in-room coffee makers and a second telephone and television. Hotel amenities generally include limited meeting space, a breakfast room and guest laundry services.

Quality Hotels

The Quality Hotels in the hotel portfolio range in size from 140 to 212 guest rooms. Room amenities typically include cable/satellite television, in-room movies, hair dryers, data ports and in-room coffee makers. Hotel amenities typically include meeting space, a breakfast room and guest laundry services.

14.1%* Travelodge



The Travelodges in the hotel portfolio are located across Canada, principally in population centres in Ontario, Alberta and Saskatchewan.

The Travelodges range in size from 98 to 254 guest rooms. Eight of the Travelodges are multi-storey, mid-scale hotels located in urban areas. The remainder are two-storey, interior corridor buildings located in suburban areas with access to major highways. Guest room amenities typically include cable/satellite television, in-room movies, work desks, data ports, in-room coffee makers and hair dryers. Hotel amenities typically include an indoor pool, whirlpool, fitness room, limited meeting space and, in the case of most hotels, a restaurant and/or lounge which is typically leased to a third party operator.



RAMADA® 2.5%* Others

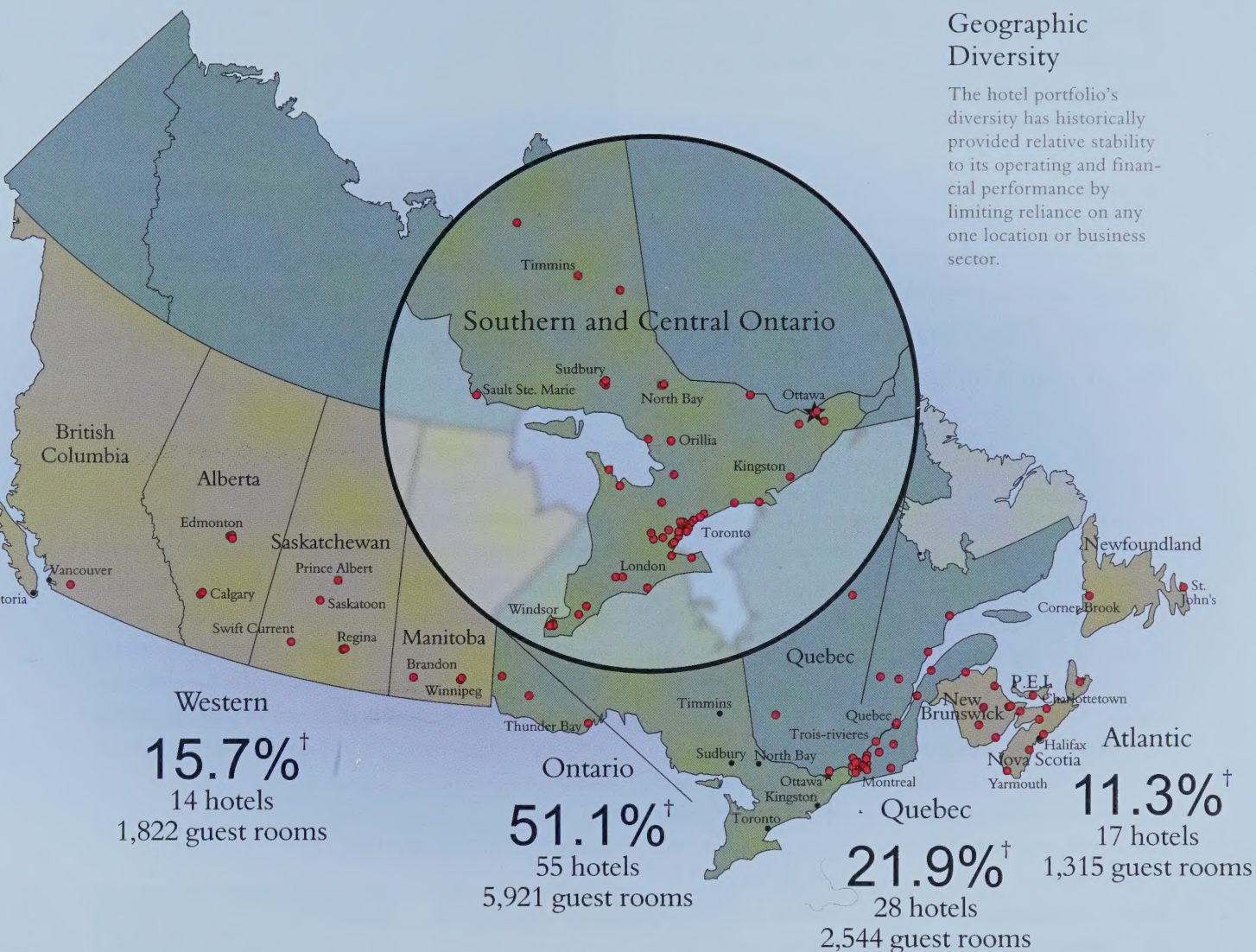
The hotel portfolio also includes individual hotels operated under the Best Western, Holiday Inn Express and Ramada Inn flags.

* Portion of operating income by brand as shown in the Management's Discussion and Analysis



Strengths WithInn

High Quality Properties

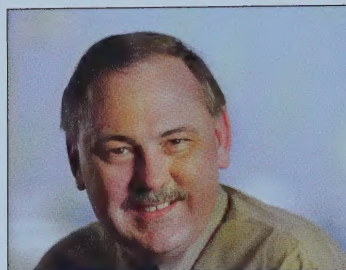


Hotel Franchising

InnVest has a 50% interest in Choice Hotels Canada, the largest franchisor of hotels in Canada. The other 50% is owned by Choice International, one of the largest hotel franchise companies in the world. Choice Canada has a long-term licence to franchise all Choice hotel brand names in Canada. It has approximately 260 locations and more than 22,000 guest rooms.

[†] Based on number of guest rooms

InnVest hotel properties are well located and set a high standard for comfort, modern amenities and service. An average 4% of hotel revenues is set aside annually for refurbishment and capital improvements.



Kenneth Gibson
President and
Chief Executive Officer

I am pleased to provide my first annual report to Unitholders since InnVest went public in July 2002. The theme of this report, Strengths WithInn, highlights InnVest's many strengths that position it for stability and growth.

We established InnVest as a real estate investment trust ("REIT") with two objectives: to provide stable and growing cash distributions to our Unitholders, and to maximize the long-term value of the REIT by continuing to actively manage the hotel assets and to make selective acquisitions that are accretive to income.

We are well positioned to achieve these objectives. We have a clearly defined operating and acquisition strategy, quality assets, strong balance sheet and excellent growth opportunities in the limited service sector of the hotel industry. This sector represents 41% of the Canadian hotel market, by properties, and independent research shows that it has outperformed the hotel industry. During the period 1997-2001, it achieved higher revenue growth and 10% to 15% higher gross operating

profit margins than most first class or luxury hotels. This sector also is less vulnerable to economic cycles, with its lower fixed costs and affordable room rates.

While InnVest has Canada's largest portfolio in the limited service sector, and in the hotel industry overall, it has considerable room to grow as the portfolio represents only 10% of all limited service hotels in Canada.

Superior Performance

While InnVest is recently public, properties in the portfolio have achieved superior performance in the limited service sector since 1999, when the final and largest acquisition of properties in the portfolio, 96 properties under the Choice flag, was



Strengths WithInn

International Brands

completed. In addition to owning and operating 114 hotels across the country, by far our largest business, we also have a 50% interest in Choice Hotels Canada – part of Choice Hotels International which is one of the largest hotel franchise companies in the world. This interest provides not only a revenue stream from franchise royalties, but also an expanded market presence, and one of the strongest global reservation and marketing networks in the world.

The Westmont Group (“Westmont”), together with various Whitehall Street Real Estate Limited Partnerships (“Whitehall Funds”), acquired the portfolio during the period 1995 to 1999. Westmont is one of the largest private owners and operators of hotels in the world, and the Whitehall Funds are managed by Goldman Sachs and Co. In the late 1990s, Westmont and Goldman Sachs identified the consolidation opportunity in the limited service sector of the Canadian hotel market and acted upon it.

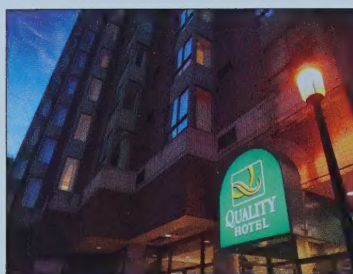
Westmont continues to be the property manager, applying management and marketing best

practices to achieve superior performance. As well, both Westmont and Whitehall continue to apply their considerable market knowledge, network and expertise to help us identify new acquisition opportunities. In order to ensure that these relationships work in the best interests of InnVest Unitholders, the REIT was carefully structured to align the interests of Westmont and Whitehall with Unitholders through their equity positions in InnVest, and to safeguard against potential conflicts of interest through a non-competition agreement and other measures.

Competitive Strengths

InnVest has a number of competitive strengths which position it to continue to outperform this sector and the Canadian hotel industry generally.

First, we operate under internationally recognized hotel brands. These brands drive business through name recognition, strong central reservation systems, brand loyalty programs and strong sales and marketing initiatives. Seventy-seven per-



At left is the Lombard Street Quality Hotel in Toronto and the lobby of the Quality Suites Toronto Airport.

The reputation and central reservation systems of international brands contribute to occupancy rates and revenues per available room. The central reservation system of the Choice Hotel brand was responsible for almost 25% of business for InnVest's 98 Choice-flagged hotels in 2002.

cent of our guest rooms are Choice Canada brands including the Comfort and Quality flags. Travelodge hotels represent 18%. Other international brands include Holiday Inn Express and Best Western.

Second, we have a geographically diverse portfolio of high quality properties. This diversification mitigates regional and business sector economic cycles. Ontario properties contributed 52% of our hotel operating income in 2002, while Quebec properties contributed 24%, and the balance was divided between the Atlantic and Western regions. Our properties are clustered in urban and suburban areas, providing operating efficiencies and sales and marketing synergies.

Third, we have a well balanced capital structure which supports our growth strategy and mitigates risks in poor economic cycles. Our financial leverage ratio was 38.5% at year end, compared with a limit of 50%, which allows us to accommodate short-term funding of acquisitions.

And fourth, our strategic relationships support the achievement of InnVest's performance objectives. Westmont takes a professional management approach to drive the top line while maximizing profitability and is incented to maximize distributable income to Unitholders. Our strategic relationships, together with our 50% interest in Choice Hotels Canada, position us to identify attractive expansion opportunities in Canada.

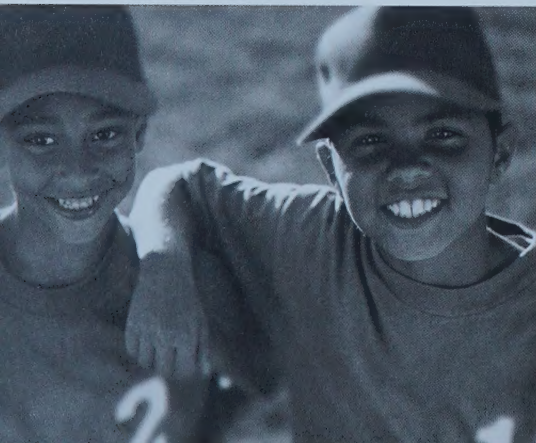
From a Unitholder's viewpoint, another strength is our conservative accounting and finan-

cial management. We calculate distributable income after deduction of a capital replacement reserve amounting to 4% of total hotel revenues, thereby enhancing the quality of distributable income. We elected to make the distributions monthly, rather than quarterly, to accommodate Unitholders' income preference. Additionally, we have strict guidelines regarding acquisition criteria as well as financial leverage.

Markets

The long-term growth trend in demand for accommodation by business and leisure travelers was interrupted by traveler concerns following September 11, 2001, and by the overall economic slowdown which has been less pronounced in Canada than in the US. Based on independent data for the Canadian accommodation industry, revenue per available room ("RevPAR") grew an average of 3.1% annually in the period 1997 through 2000, but declined an average 1.3% in 2001. RevPAR growth resumed in 2002, averaging 0.7% and is projected by PKF Consulting to grow an average 2.9% in 2003.

Toronto, as a major fly-to destination, and Ottawa, which has been impacted by the high technology slowdown, experienced the second consecutive year of reduced hotel revenues in 2002, while hotel revenues elsewhere generally increased. Recent geopolitical developments have created uncertainty regarding the hotel industry outlook and we see increased risk that industry growth forecasts for 2003 might not be realized. However, with



Strengths WithInn

Portfolio Diversity

minimal new hotel supply, the industry is positioned to rebound when the economy strengthens.

Financial Review and Outlook

Although we achieved year over year gains in operating performance in 2002, continued weakness in business travel and the general uncertainty surrounding events in the Middle East caused our results to be below forecast. The shortfall was primarily related to weakness in demand experienced in the Toronto and Ottawa markets, with the balance of the portfolio meeting forecast expectations. On balance, the limited service sector has displayed the stability in cash flow that we would expect during periods of economic uncertainty, and modest growth though less than expected.

For the 159-day period that InnVest was public in 2002, revenues were \$109.2 million, which is slightly higher than the same period in 2001 but 4.1% below the forecast adjusted for the 159-day period. The occupancy rate and revenue per avail-

able room were above 2001 but below forecast. Hotel operating income increased 3.2% year over year but was 5.8% below the adjusted forecast. Distributable income for the period was \$25.3 million or 62 cents per unit which was 6.4% below the adjusted forecast and compares with distributions to Unitholders during the period of 49 cents per unit.

The same factors that affected revenues in the second half of 2002 continue in 2003. The impact on InnVest is mitigated to some extent by our relatively minor dependence on air travelers. While we expect that achieving our published forecast in the first two quarters of 2003 will be difficult, given the current geopolitical and economic conditions, we believe that any shortfall will not be significant enough to affect cash distributions. In order to safeguard cash flow, we continue to intensify our sales and marketing efforts and to closely monitor expenses.

InnVest is well positioned to improve its operating performance as economic fundamentals improve.



At left is the exterior of the Quality Suites Toronto Airport and a guest suite in the same hotel.

InnVest has hotels across the country, enabling it to offset regional economic cycles. Its mix of corporate, leisure and government sector customers also contributes to business stability.

Operating Strategy

Our focus in 2003 is on driving revenue growth while maximizing profitability. We have a four-part operating strategy.

First we will continue to maximize the performance of each individual hotel. We will utilize state of the art management systems to provide timely information to hotel general managers and thereby support effective pricing decisions, reduce operating costs and ensure consistency and quality of service.

Second, we will continue to implement yield management and sales and marketing strategies for each hotel property in order to maximize the average daily room rate ("ADR") and RevPAR, the most common performance measures in our industry. Priorities in 2003 include using a number of internet sites to drive distribution, leveraging our Choice Club Plus brand loyalty program, and focusing advertising to drive incremental sales. Sales programs include cluster selling in cooperation with other Westmont hotels in the area, establishing relationships with local private and public sector groups, and marketing the local attractions in the environs of individual properties and property clusters. As necessary, we will continue to manage to increase market share where competition is most intense.

Third, we continue to focus on improving operating efficiencies and economies of scale through strict cost controls to achieve internal savings. Managers are able to take advantage of

centralized purchasing, renovation management, information technology and accounting functions. We benefit from Westmont's international purchasing power.

Fourth we will continually maintain the quality of the hotel portfolio by investing in the properties and service levels. We have launched major capital projects in a number of hotels, including the Montreal Quality Inn, the Toronto Airport Quality Suites, the Toronto Downtown Quality Hotel and the North Bay Best Western.

Acquisition Strategy

We plan to enhance the REIT's real return on equity through the acquisition of limited service hotel properties that are expected to be accretive to earnings and cash flow. Together with Westmont and Whitehall, we have a successful acquisition track record. These deal-sourcing and deal-making capabilities, in addition to our relationship with Choice Hotels Canada, are an important competitive advantage. As fewer than 40% of hotel properties in Canada are branded, we see the potential for acquisition and reflagging opportunities.

We will maintain a strict discipline to acquire assets that create long-term value. We have the financial capacity to acquire in excess of \$80 million of assets without the need to issue additional equity. Once new properties are acquired, we will then apply our professional management, marketing and sales practices to enhance their cash flow.



Strengths WithInn

Experienced Management

Good Governance

We are committed to achieving and maintaining good corporate governance practices. We recognize the importance of such practices for providing superior performance and managing risks over the longer term, and for attracting well qualified trustees and employees, quality partners and long-term investors.

The Board of Trustees has a balance of real estate and hotel industry expertise and broader business acumen in finance, administration, legal and other areas. A majority of the board members are independent trustees.

We have a 10-year master hotel management agreement with Westmont which was approved by our board of trustees and is on competitive market terms. We have a non-competition contract with Westmont and Whitehall whereby they must give InnVest first option on Canadian limited service acquisition candidates.

InnVest is governed by its trust indentures which ensure conservative financial management

and define operating parameters and that thereby reduce performance risks to a greater extent than for most corporations.

The past year has been a very significant milestone for the many people who have built and managed the InnVest portfolio over the past eight years. I know I speak for the corporate team at InnVest, and for the operating team at Westmont, when I say that we are focused on leveraging our competitive strengths to achieve our objectives and thereby maximize returns to Unitholders. On behalf of management and trustees, I thank you for your support and pledge to work hard on your behalf to continue to achieve superior performance and provide an attractive level of distributable income.



Kenneth Gibson
President and Chief Executive Officer



At left is the lobby of the Holiday Inn Express in North York, Ontario, and the exterior of the same hotel.

InnVest's hotel portfolio was assembled during the period 1995-1999 and has achieved superior performance relative to the limited service sector.



Tamara Lawson
Chief Financial
Officer and Secretary

"Unitholders look for stable and growing cash distributions and increasing value of the underlying assets and InnVest is well positioned to deliver on these expectations over the long term. It has a high quality, professionally managed property portfolio, a strong balance sheet, stable cash flow, and credit facilities that support acquisition initiatives. We take a conservative approach to financial management, and InnVest's trust indenture contains restrictions and policies that reduce risk."

Strengths With Inn

Well Balanced Capital Structure

The capital structure supports InnVest's growth strategy while mitigating risks throughout the economic cycle. InnVest's trust indenture requires a conservative financial leverage ratio that is not to exceed 50% (excluding convertible debentures), and at the end of 2002 was under 40%.

Management's Discussion and Analysis

The following is a discussion of the results of operations and financial condition of InnVest Real Estate Investment Trust ("InnVest" or the "REIT") for the 159-day period from July 26, 2002 to December 31, 2002, with a comparison with (1) the results of operations of the acquired hotel properties and franchise business during the comparable period in 2001 and (2) the REIT's forecast provided in its initial public offering ("IPO") prospectus dated July 18, 2002, prorated to correspond with the 159-day period. In order to help investors better understand the performance record and potential of the REIT, we have compared certain performance measures for calendar 2002 with calendar 2001. We have also included summary financial highlights extracted from the audited financials for the acquired hotel properties and franchise business included in the IPO prospectus for the years 1999 through 2001.

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the REIT and the notes thereto for the 159-day period from July 26, 2002 to December 31, 2002 and with the audited income statements of the acquired hotel portfolio and the forecast contained in the prospectus.

The financial statements of InnVest are prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars. All dollar amounts are in thousands unless otherwise indicated, except for per unit, Average Daily Rate ("ADR") and Revenue per Available Room ("RevPAR") amounts.

FORWARD-LOOKING INFORMATION

The following discussion, as well as other sections within this annual report, contains forward looking or outlook information with respect to InnVest. Because forward-looking information addresses future events and conditions, it involves risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking information. These risks and uncertainties are discussed in Management's Discussion and Analysis.

InnVest disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable securities laws.

OBJECTIVES OF INNVEST

InnVest was established with two objectives: (1) to provide stable and growing cash distributions to Unitholders, and (2) to maximize the long-term value of the REIT by continuing to actively manage the hotel assets and to make selective acquisitions that are expected to be accretive to earnings and cash flow.

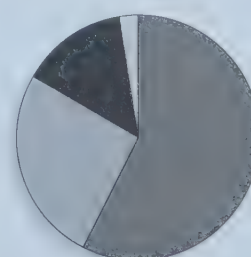
OPERATIONS OVERVIEW

InnVest has two operations: (1) Canada's largest portfolio of hotels, measured by the number of hotels and the number of guest rooms, the vast majority of which are in the limited service sector; and (2) a 50% interest in Choice Hotels Canada Limited ("Choice Canada"), the largest franchisor of hotels in Canada, and various other licence contracts.

Hotel Ownership

InnVest owns 114 branded limited service or mid-scale full service hotels, located in every province of Canada (the "hotel portfolio"). The hotel portfolio includes 98 hotels flagged with Choice brands (Comfort Inn®, Quality Inn®, Quality Hotel® and Quality Suites®), 13 Travelodge® hotels and three hotels flagged with Best Western®, Holiday Inn Express® and Ramada Inn® brands. A considerable amount of each brand's business is generated through the franchise company's central reservation system. For the REIT's Choice branded hotels, the central reservation system generated 22.6% of the business of Comfort Inns, and 25.3% of the business of Quality Inns, Hotels and Suites for calendar 2002.

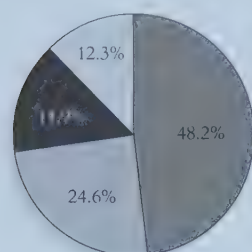
Hotel
Operating Income -
Brand Contribution



- Comfort Inns 57.5%
- Quality Hotels 25.9%
- Travelodge 14.1%
- Other 2.5%

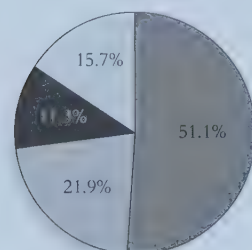
Management's Discussion and Analysis

Number of Hotels
by Region



- Ontario (55)
- Quebec (28)
- Atlantic (17)
- Western (14)

Number of Hotel
Rooms by Region



- Ontario (5,921)
- Quebec (2,544)
- Atlantic (1,315)
- Western (1,822)

Geographically, the REIT's guest rooms are concentrated in Ontario and Quebec (together representing 73% of guest rooms) where the majority of Canada's population and business activity is located, with the balance of properties in the Atlantic and Western provinces as shown in the charts to the left.

The hotels are typically located near major thoroughfares in urban and suburban areas, typically near demand generators such as office centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business and leisure travelers, groups, organizations and corporate clients.

Franchise Business

InnVest owns 50% of Choice Canada, which operate over 260 locations and more than 22,000 guest rooms across the country. The remaining 50% is owned by Choice Hotels International Inc. ("Choice International"), which is one of the largest hotel franchise companies in the world. In addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs and proprietary property management systems. Choice-branded hotels are, as a general rule, inspected regularly to ensure quality and consistency of service.

Choice Canada earns franchise revenues by charging monthly royalty fees to hotel owners based on a percentage of the revenue generated by the licenced properties and by selling franchises. In 1993, Choice Canada was granted a 99-year licence to franchise all Choice hotel brands in Canada.

InnVest also holds the franchise licence contracts on 10 third party owned Comfort Inns located in Ontario. The average remaining term of these contracts is 24 years. Income received from these contracts is included in franchise business income, along with the proportionate share of income from Choice Canada.

MARKET OVERVIEW

Limited Service Segment of the Hotel Industry

Approximately 41% of Canada's more than 3,200 hotel properties (with 30 guest rooms or more) are considered limited service hotel properties, generally providing only limited food and beverage or other ancillary services. Limited service hotels generate substantially all revenues from guest room rentals and tend to target more price-sensitive segments of the market. Hotel ownership in the limited service sector is significantly fragmented, with the majority being family-owned and operated.

Hotel properties in the limited service segment have shown greater resistance to recessionary economic conditions than their full service counterparts. Contributing factors include more affordable room rates, the fact that fixed costs represent a smaller proportion of the cost structure and less reliance on fly-to-destination customers.

Limited service hotels generally produce more stable cash flow and have higher operating margins than their full service counterparts. According to independent industry data, the limited service sector has outperformed the overall Canadian hotel market since 1997, with cumulative growth in ADR and RevPAR of 30.8% and 23.9% respectively, compared with 23.1% and 14.0%, respectively, for the overall Canadian hotel market through calendar 2002.

BUSINESS STRATEGY

InnVest plans to achieve its business objectives through a combination of internal and external growth.

Operating Strategy

InnVest's operating strategy is to continue to enhance the performance of the hotel portfolio. The manager of the hotel portfolio is the Westmont Group ("Westmont"), one of the largest owners/operators of hotels in the world. Under Westmont's management, the portfolio has achieved significant improvement in Average Daily Rates and Revenue per Available Room and has experienced superior performance relative to the overall Canadian hotel industry. Westmont applies four main operating and strategic principles to maximize efficiencies and internal growth: (1) maximizing the performance of each individual hotel; (2) developing yield management and market strategies to maximize RevPAR; (3) improving operating efficiencies and economies of scale; and (4) continually maintaining the quality of the portfolio.

Westmont has a 10-year master hotel management agreement to manage InnVest's hotel portfolio and is subject to non-competition arrangements.

Acquisition Strategy

The acquired hotel portfolio was assembled by Westmont and various Whitehall Street Real Estate Limited Partnerships ("Whitehall Funds") during the period 1995 to 1999. InnVest will also seek to increase cash flow and enhance unit value through the selective acquisition of limited service hotels that will be accretive to earnings and cash flow.

Directly and through Westmont and Whitehall, InnVest has access to an international network relationships with leading participants in the hospitality industry. The REIT has the financial capacity to acquire in excess of \$80 million of hotel assets without the need to issue additional equity. Once new properties are acquired, the REIT will apply its professional management, marketing and sales practices to enhance their cash flow.

COMPETITIVE STRENGTHS

InnVest has a number of competitive strengths which should enable it to carry out its business and acquisition strategies:

- With Canada's largest hotel portfolio, it plans to continue to leverage its size and scale to achieve superior operating efficiencies and margins, through centralized purchasing and other functions;
- The strengths of its international brands brings name recognition, central reservation systems, marketing and customer loyalty programs and quality standards;
- The 50% ownership interest in Choice Hotels Canada brings favourable franchise terms and the benefits of being a franchisor;
- Westmont's professional management and extensive experience in Canada and international markets enables the REIT to maximize its performance;
- The geographic and customer diversity offset regional and industry sector cyclicity
- InnVest has a balanced capital structure, supporting its growth strategy while mitigating risks; and
- The deal-sourcing capabilities of Westmont and Whitehall together with the deal-making capacities of InnVest and Westmont, position InnVest to make attractive acquisitions.

KEY PERFORMANCE INDICATORS

The key measures that indicate the strength of the hotel industry throughout the economic cycle and the relative strength of participants in the industry are Occupancy, Average Daily Rate and Revenue per Available Room. These key performance indicators for the REIT by geographic region in Canada for the period from July 26, 2002 to December 31, 2002 are as follows:

	Ontario	Quebec	Atlantic	Western	Total
Occupancy	65.2%	70.6%	69.3%	60.2%	66.1%
Average Daily Rate	\$ 87.74	\$ 84.33	\$ 82.44	\$ 65.60	\$ 83.14
Revenue per Available Room	\$ 57.24	\$ 59.53	\$ 57.12	\$ 39.50	\$ 54.94

BUSINESS ENVIRONMENT AND OUTLOOK

During the 1997 through 2000 period, according to independent industry data, growth of the Canadian accommodation industry measured by RevPAR averaged 3.1% annually. In 2001, the industry weathered an economic slowdown and the impact of the tragic events of September 11, 2001 and as a result RevPAR declined an average 1.3%. The primary impact in Canada was in the Toronto airport market. In 2002, RevPAR growth resumed, averaging 0.7% overall, but some markets declined for a second year. The Toronto market under performed the industry, challenged by lower than expected demand during the period around the anniversary of September 11, 2001 and new hotel supply. The Ottawa market was affected by the slowdown in the technology industry.

Over the longer term, InnVest expects positive demand growth which will be more stable in the limited service sector of the industry. Growth will depend on the health of the travel industry and the economy generally, both of which are currently affected by geopolitical events.

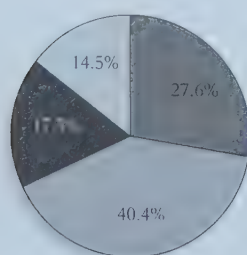
FINANCIAL REVIEW

Seasonality

Revenues earned from hotel operations fluctuate throughout the year, with the third quarter being the highest due to the increased level of leisure travel in the summer months and the first quarter being the lowest as leisure travel tends to be lower.

Over the past four years, the hotel operating income generated from the hotel portfolio in each quarter has fluctuated little, with the average quarterly contribution as indicated left:

Average Hotel
Operating Income
Contribution
1999-2002



- First Quarter
- Second Quarter
- Third Quarter
- Fourth Quarter

Historical Operating Results Comparison

InnVest has audited results for the 159 days from July 26, 2002 to December 31, 2002. The following is therefore a year-over-year comparison using unaudited 12-month numbers for 2002, with adjusted 1999-2001 income numbers to reflect the current management fee arrangement with Westmont. Occupancy and RevPAR statistics have been adjusted to reflect that all rooms in the portfolio are available to rent each day, whereas previously reported figures, including those in the IPO, removed rooms under repair from total available rooms. These changes were made so that year over year RevPAR variances are more comparable and are not considered material.

Historical Operating Results⁽¹⁾

	2002	2001	Var %	2000	Var %	1999	Var %
Occupancy	65.1%	64.3%	1.2%	65.0%	(1.1%)	67.2%	(3.3%)
Average daily rates	\$ 81.94	\$ 82.51	(0.7%)	\$ 82.14	0.5%	\$ 77.08	6.6%
Revenue per available room	\$ 53.37	\$ 53.06	0.6%	\$ 53.38	(0.6%)	\$ 51.77	3.1%
Room revenue	\$ 224,614	\$ 222,128	1.1%	\$ 223,298	(0.5%)	\$ 215,980	3.4%
Total revenue	\$ 242,771	\$ 241,999	0.3%	\$ 242,803	(0.3%)	\$ 234,801	3.4%
Gross operating profit ⁽²⁾	\$ 117,864	\$ 116,578	1.1%	\$ 121,286	(3.9%)	\$ 114,788	5.7%
Gross operating profit margin	48.5%	48.2%	0.6%	50.0%	(3.6%)	48.9%	2.2%
Hotel operating income	\$ 95,075	\$ 94,885	0.2%	\$ 101,252	(6.3%)	\$ 94,796	6.8%
Hotel operating income margin	39.2%	39.2%	—	41.7%	(6.0%)	40.4%	3.2%

(1) Unaudited 12-month data for 2002 and audited data for 1999-2001 were adjusted to reflect the revised management fee structure

(2) Gross operating profit is defined as hotel operating revenues less hotel operating expenses and management fees

Revenues

Hotel revenues consist primarily of revenue generated from room occupancy. Revenue from food and beverage services and other miscellaneous revenue streams associated with hotel operations such as space leases, vending commissions, movie rentals, parking and telephone are also included and account for approximately 8% of the total revenue of the hotel portfolio.

Total revenues in 2002 were \$242.8 million, 0.3% higher than the \$242.0 million generated in 2001. In 2002, occupancy for the hotel portfolio increased by 1.2% to 65.1%, while average daily rates decreased by 0.7% from \$82.51 to \$81.94 for a RevPAR increase of 0.6%. Room revenue increased by 1.1% or \$2.5 million, which was higher than the RevPAR increases because of an increase in available rooms resulting from the expansion of two Comfort Inn properties. The increase in room revenue was partially offset by decreases in food and beverage and other revenues.

The 0.6% increase in RevPAR for the REIT's hotel portfolio in 2002 compares with the RevPAR increase for the overall Canadian hotel industry of 0.7%. In 2001, the REIT's hotel portfolio revenue declined by 0.3% from a year earlier, largely due to the impact of September 11, while in 2000 revenue increased 3.4%.

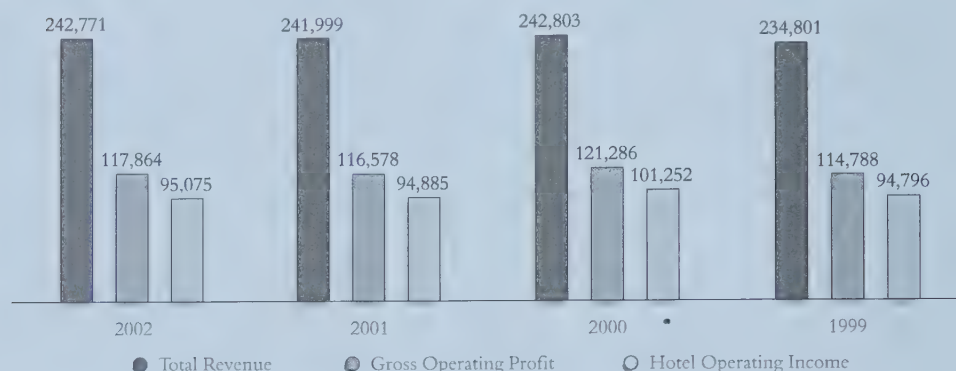
Gross Operating Profit and Margin

The gross operating profit increased by 1.1% to \$117.9 million in 2002, from \$116.6 million in 2001. The gross operating profit margin increased to 48.5% from 48.2% in 2001, as a result of the implementation of additional cost controls which more than offset increases in property taxes and insurance.

Hotel Operating Income

Hotel operating income for the 159-day period from July 26, 2002 to December 31, 2002 was essentially unchanged at \$95.1 million, compared with \$94.9 million in 2001.

The relative stability of revenues, gross operating profit and hotel operating income, and accordingly the cash flow stream produced by the hotel portfolio, is demonstrated in the chart below.



	2002	2001	2000	1999
Revenue change	0.3%	(0.3%)	3.4%	
Gross operating profit margin	48.5%	48.2%	50.0%	48.9%
Hotel operating income margin	39.2%	39.2%	41.7%	40.4%

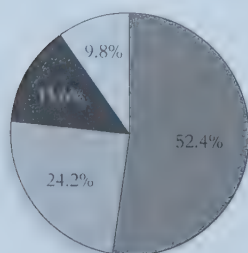
COMPARISON OF 159-DAY PERIOD IN 2002 WITH CORRESPONDING PERIOD IN 2001

Hotel Revenues

For the 159-day period ended December 31, 2002, hotel revenues were \$109.2 million, compared with \$108.2 million in the same period last year, an increase of 0.9%.

The average occupancy rate for the 159-day period was 66.1%, 1.4% above 2001. The ADR for the period was \$83.14, or \$0.38 above the prior year. This increase resulted in RevPAR of \$54.94, \$0.95 or 1.8% above last year.

Regional Hotel Operating Income



- Ontario (23,329)
- Quebec (10,777)
- Atlantic (6,037)
- Western (4,386)

Hotel Expenses

InnVest intensified its program of disciplined cost management during the fourth quarter to help offset weaker than expected revenues in the Toronto and Ottawa markets. For the 159-day period, total hotel expenses were \$64.7 million, 0.6% below 2001 despite increases in fixed charges such as property taxes and insurance.

Hotel Operating Income

Hotel operating income for the 159-day period from July 26, 2002 to December 31, 2002 was \$44.5 million, 3.2% higher than the same period in 2001.

Hotel operating income generated by geographical region for the period is shown in the chart to the left.

Comparison to Forecast

The following table summarizes the actual results and adjusted forecast for the hotel portfolio and the franchise business for the reporting period from July 26, 2002 to December 31, 2002. The forecast provided in the IPO prospectus has been prorated to reflect the closing effective July 25, 2002 rather than June 30, 2002.

Financial Highlights Summary

<i>For the period from July 26, 2002 to December 31, 2002</i>	Actual	Adjusted Forecast	Variance
Hotel revenues	\$ 109,230	\$ 113,880	\$ (4,650)
Hotel expenses	64,701	66,621	1,920
Hotel operating income	\$ 44,529	\$ 47,259	\$ (2,730)
EBITDA ⁽¹⁾	\$ 44,656	\$ 47,327	\$ (2,671)
Net income	\$ 20,387	\$ 22,005	\$ (1,618)
Net income per unit			
– basic	\$ 0.42	\$ 0.46	\$ (0.04)
– diluted	\$ 0.42	\$ 0.46	\$ (0.04)
Net income for the period	\$ 20,387	\$ 22,005	\$ (1,618)
Add / (deduct)			
Depreciation and amortization	13,036	13,409	(373)
Future income tax recovery	(752)	(752)	–
Non-cash executive compensation	72	–	72
Funds from operations	\$ 32,743	\$ 34,662	\$ (1,919)
Funds from operations per unit			
– basic	\$ 0.72	\$ 0.77	\$ (0.05)
– diluted	\$ 0.68	\$ 0.72	\$ (0.04)
Funds from operations	\$ 32,743	\$ 34,662	\$ (1,919)
Amortization of fair value debt adjustment	(574)	(589)	15
Amortization of deferred financing costs	633	633	–
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(4,369)	(4,555)	186
Interest on convertible debentures	(3,170)	(3,170)	–
Distributable income	\$ 25,263	\$ 26,981	\$ (1,718)
Distributable income per unit			
– basic	\$ 0.62	\$ 0.66	\$ (0.04)
– diluted	\$ 0.59	\$ 0.63	\$ (0.04)
Distributions	\$ 20,000	\$ 20,000	\$ –
Distributions – per unit	\$ 0.49	\$ 0.49	\$ –

(1) EBITDA – Earnings before interest, income taxes, capital taxes and depreciation and amortization.

The forecast included in the IPO prospectus reflects expected operating results for the period from July 1, 2002 to December 31, 2002. As InnVest acquired the properties on July 25, 2002 the forecast results were adjusted to remove the 25-day period during which the properties were not owned by InnVest. The forecast adjusted for the first twenty-five days is as follows:

Financial Highlights Summary continued

	Forecast	Less 25 Days	Adjusted Forecast
Hotel revenues	\$ 137,041	\$ 23,161	\$ 113,880
Hotel expenses	78,216	11,595	66,621
Hotel operating income	58,825	11,566	47,259
Other income and expenses	29,453	3,995	25,458
Income before income tax expense (recovery)	29,372	7,571	21,801
Income tax expense (recovery)	(236)	32	(204)
Net income	\$ 29,608	\$ 7,603	\$ 22,005
Net income per unit			
– basic	\$ 0.63	\$ 0.17	\$ 0.46
– diluted	\$ 0.60	\$ 0.14	\$ 0.46
Net income	\$ 29,608	\$ 7,603	\$ 22,005
Add / deduct			
Depreciation and amortization	15,519	2,110	13,409
Future income tax recovery	(870)	(118)	(752)
Funds from operations	44,257	9,595	34,662
Add / deduct			
Amortization of fair value debt adjustment	(682)	(93)	(589)
Amortization of deferred financing costs	731	98	633
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(5,481)	(926)	(4,555)
Interest on convertible debenture	(3,656)	(486)	(3,170)
Distributable income	\$ 35,169	\$ 8,188	\$ 26,981
Distributable income per unit			
– basic	\$ 0.86	\$ 0.20	\$ 0.66
– diluted	\$ 0.79	\$ 0.16	\$ 0.63

Hotel Revenues

For the 159-day period ended December 31, 2002, revenues were \$109.2 million, \$4.7 million or 4.1% less than the adjusted forecast. Over \$2 million of this variance can be explained by reduced demand during the month of September 2002, due to the effects of the first anniversary of September 11, 2001. The balance of the shortfall was the result of a delay in the predicted economic recovery for the second half of 2002, along with the deterioration in the geopolitical situation related to Iraq.

Hotel Expenses

For the reporting period, hotel expenses were \$64.7 million, \$1.9 million or 2.9% below the adjusted forecast, partially as a result of cost management initiatives undertaken by Westmont during the reporting period.

Hotel Operating Income

Hotel operating income for the reporting period was \$44.5 million, compared with the adjusted forecast of \$47.3 million. Of the \$2.7 million shortfall from the forecast, 44% was accounted for in the month of September, 34% in December, 17% in October and 5% in November.

Other Income and Expenses

Other income and expenses consist of interest on mortgages, corporate and administrative costs, capital tax, franchise business income, other income and depreciation and amortization.

The net amount of other income and expenses for the reporting period was \$24.3 million, \$1.1 million less than the adjusted forecast. This reduction was due principally to a reduction in interest payments of \$680 and \$50 of corporate and administrative expenses. Depreciation and amortization was below adjusted forecast by \$373, the result of less refurbishment work completed in the reporting period than was forecast. The franchise business contributed \$48 more than forecast.

The savings in interest expense are expected to continue throughout the forecast year for total savings to the forecast of approximately \$1.6 million. The savings are being achieved by locking in \$211.0 million of mortgage debt for an average term of 5.1 years at base rates of 0.74% less than forecast in the IPO prospectus.

Income Taxes

Income tax recovery for the period was \$204 including the future income tax recovery recorded as a result of the difference between depreciation for accounting purposes and the lesser amount allotted as capital cost allowance for income tax purposes for the reporting period and large corporations tax.

Current income taxes and the draw down on future income taxes are consistent with the adjusted forecast.

The REIT estimates that 36.8% of the distributions made in 2002 will not be currently taxable to the Unitholder and that, as a result of there being a full year of operations the tax-deferred portion will decrease to approximately 21% for 2003 based on the planned level of distributions.

Net Income

Net income for the reporting period was \$20.4 million or \$0.42 per unit – basic (\$0.42 – diluted) versus the adjusted forecast of \$22.0 million or \$0.46 per unit – basic (\$0.46 – diluted).

Distributable Income

Distributable income for the reporting period was \$25.3 million or \$0.62 per unit – basic (\$0.59 – diluted), as compared to the adjusted forecast of \$27.0 million or \$0.66 per unit – basic (\$0.63 – diluted). Cash distributions for the reporting period were \$20 million or \$0.49 per unit.

CHANGES IN FINANCIAL CONDITION

Investing Activities

On July 25, 2002, InnVest purchased a portfolio of 114 hotels for \$860.4 million and 50% of the Choice Canada franchise business and various other licence contracts for \$26.3 million. The REIT incurred \$6.7 million of acquisition costs and \$22.9 million of issue costs as part of the transaction. During the period, hotel properties and licence contracts decreased by \$10.7 million, the net of capital additions and depreciation.

In the reporting period, other investing activities were limited to capital expenditures as part of the regular refurbishment program and the setting aside of 4% of revenues for the furniture, fixture and equipment reserve ("FF&E reserve") shown as restricted cash in the financial statements. For the period ended December 31, 2002 a total amount of \$2.4 million was spent on capital items. The FF&E reserve increased by 4% of revenues, or \$4.4 million (before capital expenditures), as compared to the \$4.6 million included in the adjusted forecast.

The normal reserve for replacement of furniture, fixtures and equipment and capital improvements is managed over the longer term. This reserve is maintained to ensure that the properties remain competitive in their markets. During 2003, approximately \$8 million will be spent as part of the forecast refurbishment program.

The REIT intends to follow a program of completing a significant amount of its property refurbishing work in the winter months, whereby the revenue reduction caused by having rooms out of service is minimized.

Financing Activities

At the closing of the IPO, a total of \$211.0 million was advanced by the REIT's principal mortgage lender. An additional \$109.0 million of mortgage debts, net of repayments made on the acquisition date, was assumed from the hotel properties acquired. The mortgage debts had a fair value of approximately \$112.0 million. On closing, \$5.7 million of mortgage debt was repaid from advances from InnVest's major mortgage lender. Total regular scheduled principal payments during the reporting period were \$2.8 million.

Liquidity and Capital Resources

Liquidity is generated from cash flow from hotel operations, bank operating lines available and by the availability to finance certain unencumbered or under-leveraged assets. Funds from operations were \$32.7 million compared with the adjusted forecast of \$34.7 million.

During the reporting period, the REIT distributed \$0.3932 per unit and declared a regular monthly distribution of \$0.09375 for the month of December 2002, which was paid in January 2003.

The REIT has an unused operating loan facility of \$25 million and four hotel properties that remain unencumbered that could generate approximately \$6.3 million in mortgage proceeds based on 50% loan to value. The REIT also has an unused acquisition facility of \$40 million available to acquire hotel properties and an unused loan facility of \$24 million to fund 50% of capital expenditures incurred.

The REIT has a \$100 million mortgage loan facility with its main mortgage lender available to repay mortgage debts held by its various other lenders as they mature. Consequently, the REIT has minimal refinancing risk until 2006.

RISKS AND UNCERTAINTIES

The REIT is subject to the normal operating risks consistent with the hotel ownership, including the risks described below. The REIT has risk management processes in place, and additionally mitigates business risks through restrictions, limitations and policies placed upon it by its trust indenture as outlined on page 22.

Real Estate Investment Risks

One of the factors contributing to the REIT's income and ability to make distributions to its Unitholders is its ability to operate its hotels in a manner that maintains or increases revenues and that generates sufficient hotel operating income.

Hotel Industry Risks

The REIT is subject to the operating risks inherent in the Canadian hotel industry, including:

- Cyclical downturns arising from changes in economic conditions;
- Competition from other hotels;
- Seasonal fluctuations in hotel operating income produced throughout the year;
- Changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulation, changes in interest rates or currency fluctuations;
- Changes in the level of business and commercial travel and tourism;
- Increase in the supply of accommodations in local markets which may adversely affect the results of operations; and
- Availability and pricing of financing for operating or capital requirements.

The REIT mitigates these risks by having a geographically diverse portfolio of hotels, acquired at below replacement cost, many of which are in markets with significant barriers to entry. The REIT maintains a \$25 million operating line to ensure that the seasonal fluctuation in the generation of cash flow will not affect its ability to operate in the normal course.

The REIT also has significant buying power and negotiates favourable national contracts on a regular basis for operating supplies and renovation materials, and hedges energy costs where deemed appropriate. The REIT's strategy is to maintain customers across several segments, including corporate, government, leisure, local, crew, sports and other groups and not rely on any single segment.

The REIT is required to maintain, by its trust indenture, a conservative leverage of 50% or less of its gross asset value (which is defined as total assets before accumulated depreciation less future income tax liability). The vast majority of the REIT's mortgage debt is subject to fixed interest rates, significantly reducing its exposure to interest rates.

TRUST INDENTURE

InnVest is governed by its trust indenture, which is intended to mitigate risks by virtue of restrictions and policies for financial and operational management. The following is a list of some of the restrictions, limitations, and policies:

- Eligible investments restricted primarily to hotels in Canada;
- Prohibition against investing in raw land for development and engaging in the development and construction of new real property;
- Individual property mortgages, or mortgages on a pool of properties, cannot exceed 75% of their respective values;
- Limitation on debt of 50% of gross asset amount, before convertible debentures. The REIT's leverage at December 31, 2002 was 38.5%;
- Limitation on debt of 60% of gross asset amount, including convertible debentures. The REIT's leverage, including convertible debentures, at December 31, 2002 was 47.6%;
- Units cannot be issued from treasury unless the trustees consider it not to be dilutive to ensuing annual distributions of distributable income to Unitholders;
- Requirement to pay distributions of not less than 80% of the annual distributable income, equally on a monthly basis;
- Related party transactions require the approval of two-thirds of the independent trustees, and any transfers of real property between related parties requires an independent appraisal; and
- Any material change to the Master Hotel Management Agreement requires two-thirds approval of the independent trustees.

OUTLOOK

InnVest provided a forecast in its IPO prospectus for the three months ended March 31, 2003 and the six and twelve months ending June 30, 2003. While the REIT controlled expenses and accordingly maintained margins in line with the forecast in the six months to December 31, 2002, its revenues fell short of the forecast, resulting in lower than forecast hotel operating income.

The same factors that affected revenues in the second half of 2002 continue in 2003 and appear to have intensified with the start of the war in Iraq which has a dampening affect on overall travel. The impact on InnVest is mitigated to some extent by its relatively minor dependence on air travelers. While we expect that achieving our published forecast in the first two quarters of 2003 will be difficult, given the current geopolitical and economic conditions, we believe that any shortfall will not be significant enough to affect cash distributions. In order to safeguard cash flow, we continue to intensify our sales and marketing efforts and to closely monitor expenses.

Prior to the escalation of the conflict in Iraq, we were seeing a number of positive factors, including strong leisure travel and an improving supply/demand balance of hotel rooms in major markets. Recent geopolitical developments have created greater uncertainty regarding the hotel industry outlook and we see an increased risk that the growth forecasts provided by industry specialists for 2003 will not be realized. Nevertheless, InnVest is well positioned to weather soft markets. When economic fundamentals and the geopolitical situation improve, we expect to see a positive impact on our operating results. Our current priority is to maximize revenues through sales and marketing initiatives and to continue to control operating costs.

InnVest's hotel portfolio has a long track record of stable cash flow and we continue to invest in the hotel portfolio to ensure that this track record continues. With its quality portfolio, geographical diversification, economies of scale, strong balance sheet and extensive experience in the industry, InnVest is well positioned to benefit as market conditions improve.

Management's Responsibility for the Financial Statements

The consolidated financial statements and management's discussion and analysis contained in this annual report are the responsibility of the management of InnVest Real Estate Investment Trust (the "REIT"). To fulfill this responsibility, the REIT maintains a system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate, and provide assurance that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgment in the circumstances. The financial information presented throughout this annual report is consistent with the information contained in the consolidated financial statements.

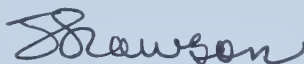
Deloitte & Touche LLP, the independent auditors appointed by the Board of Trustees, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the consolidated financial statements. Their report as auditors is set out below.

The consolidated financial statements have been further examined by the Board of Trustees and by its Audit Committee which meets regularly with the auditors and management to review the activities of each. The Audit Committee, which is comprised of three trustees who are not officers of the REIT, reports to the Board of Trustees.



Kenneth Gibson,
*President and
Chief Executive Officer*

February 28, 2003



Tamara Lawson,
*Chief Financial Officer
and Secretary*

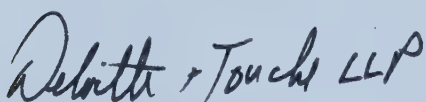
Auditors' Report

TO THE UNITHOLDERS OF INNVEST REAL ESTATE INVESTMENT TRUST

We have audited the consolidated balance sheet of InnVest Real Estate Investment Trust (the "REIT") as at December 31, 2002, and the consolidated statements of net income, unitholders' equity and cash flows for the period from July 26, 2002 to December 31, 2002. These consolidated financial statements are the responsibility of the REIT's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the REIT as at December 31, 2002, and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Ontario
February 28, 2003

Consolidated Balance Sheet

(in thousands of dollars)

As at December 31, 2002

ASSETS

Current Assets

Cash	\$	26,730
Accounts receivable		7,499
Prepaid expenses and other assets		3,865

38,094

Restricted cash (Note 4)

12,075

Hotel properties (Note 5)

850,314

Licence contracts (Note 6)

25,749

Deferred financing costs (Note 7)

6,680

\$ 932,912

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities	\$	18,558
Distributions payable		3,851
Acquisition related liabilities		9,275
Current portion of long-term debt (Note 9)		8,976

40,660

Long-term debt (Note 9)

310,486

Future income tax liability (Note 10)

121,733

472,879

Commitments and contingencies (Note 11)

EQUITY

Unitholders' equity

385,033

Convertible debentures (Note 12)

75,000

460,033

\$ 932,912

The accompanying notes are an integral part of these consolidated financial statements.



Majid Mangalji,
Chairman of the Board of Trustees



Frank Anderson,
Chairman of the Audit Committee

Consolidated Statement of Net Income

<i>(in thousands of dollars, except per unit amounts)</i>		For the period from July 26, 2002 to December 31, 2002
Hotel revenues	\$	109,230
Hotel expenses		
Operating expenses <i>(Note 16)</i>		51,382
Property taxes, rent and insurance		9,626
Management fees <i>(Note 16)</i>		3,693
		64,701
Hotel operating income		44,529
Other (income) and expenses		
Interest on mortgages		9,943
Corporate and administrative <i>(Note 16)</i>		1,254
Capital tax		861
Franchise business income		(1,258)
Other income		(123)
Depreciation and amortization		13,669
		24,346
Income before income tax expense		20,183
Income tax expense (recovery) <i>(Note 10)</i>		
Current		548
Future		(752)
		(204)
Net income	\$	20,387
Net income per unit – basic <i>(Note 13)</i>	\$	0.42
– diluted <i>(Note 13)</i>	\$	0.42

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Unitholders' Equity

<i>(in thousands of dollars)</i>		For the period from July 26, 2002 to December 31, 2002
Issue of trust units <i>(Note 12)</i>	\$	300,000
Issue costs <i>(Note 12)</i>		(22,945)
Issue of trust units to purchase hotel properties <i>(Note 12)</i>		110,689
Executive compensation, fair value <i>(Note 12)</i>		72
Net income		20,387
Interest on convertible debentures		(3,170)
Unit distributions		(20,000)
Closing unitholders' equity	\$	385,033

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

<i>(in thousands of dollars)</i>	For the period from July 26, 2002 to December 31, 2002
OPERATING ACTIVITIES	
Net income	\$ 20,387
Add (deduct) items not affecting funds from operations	
Depreciation and amortization	13,036
Future income tax recovery	(752)
Non-cash executive compensation	72
Funds from operations	32,743
Amortization of fair value debt adjustment	(574)
Amortization of deferred financing costs	633
Changes in non-cash working capital	17,982
	50,784
FINANCING ACTIVITIES	
Proceeds from long-term debt	211,000
Repayment of long-term debt	(225,724)
Issue of trust units	300,000
Issue costs	(22,945)
Unit distributions	(16,149)
Changes in non-cash working capital related to financing activities	1,009
Interest on convertible debentures	(3,170)
Deferred financing costs	(7,313)
	236,708
INVESTING ACTIVITIES	
Capital expenditures on hotel properties	(2,367)
Asset acquisitions <i>(Note 3)</i>	(258,313)
Changes in non-cash working capital related to investing activities	1,993
Increase in restricted cash	(2,075)
	(260,762)
Increase in cash during the period	26,730
Cash, beginning of period	—
Cash, end of period	\$ 26,730
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 9,816
Cash paid for income taxes (including capital tax)	\$ 1,309

The accompanying notes are an integral part of these consolidated financial statements.

As at December 31, 2002 and for the period from July 26, 2002 to December 31, 2002
(all dollar amounts are in thousands, except per unit amounts)

1. BASIS OF PRESENTATION

InnVest Real Estate Investment Trust (the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT was established pursuant to a declaration of trust dated January 1, 2002. On July 25, 2002, the REIT raised \$300,000 (before issue costs) by issuing units on the Toronto Stock Exchange. These proceeds together with the issue of additional units and convertible debentures were utilized to acquire a portfolio of 114 Canadian hotels with 11,602 guest rooms operated under international brands (see Note 3). These consolidated financial statements represent operations measured from the first day of operations July 26, 2002 to December 31, 2002.

Revenues earned from hotel operations fluctuate throughout the year, with the third quarter being the highest due to the increased level of leisure travel in the summer months, and the first quarter being the lowest as leisure travel tends to be lower at that time of the year.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries and the proportionate share of the assets, liabilities, revenues and expenses of joint ventures, including the REIT's 50% interest in Choice Hotels Canada Inc ("CHC").

Use of Estimates

The preparation of the REIT's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Hotel Properties

Hotel properties, consisting of land, buildings and furniture and equipment, are stated at the lower of cost less accumulated depreciation and the estimated net recoverable amount.

Depreciation

Depreciation is provided on a straight-line basis over a period not to exceed the following:

Buildings	– 40 years
Building renovations	– 7 years
Furniture and equipment	– 7 years
Paving	– 10 years

Deferred Financing Costs

Deferred financing costs consist of commitment fees, underwriting costs and legal costs associated with the sourcing of new debt and the renewal of existing debt of the REIT. These costs are amortized over the term of the applicable debt.

Licence Contracts

Licence contracts include franchise contracts related to the REIT's joint venture interest in CHC and various other licence contracts, and are recorded at the value attributed to the discounted cash flow of the expected earning stream under the contract terms at the time of acquisition. These costs are amortized over the average life or expected renewal life of the contracts, which is estimated to be twenty years.

Long-term Debt

Long-term debt that was assumed on the acquisition of properties was recorded at its estimated fair value on the date of acquisition (the "fair value amount"). The difference between the fair value amount and the face value of the long-term debt is being amortized to interest expense on a straight-line basis over the average remaining period until maturity.

Revenue Recognition

Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

Monthly revenues from licence contracts are based on gross room revenue as reported by the franchisees and are recorded when earned with an appropriate provision for estimated uncollectible amounts. Initial franchise fees are recorded as income when the cash has been received and upon execution of binding contracts.

Income Taxes

Pursuant to the terms of the Declaration of Trust, the trustees of the REIT are required to make distributions or designate all taxable income earned by the REIT to its Unitholders, including the taxable part of net realized capital gains, and will deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required on income earned by the REIT.

The REIT's corporate subsidiaries are subject to tax on their taxable income. Income taxes are accounted for using the liability method, whereby future income tax assets and liabilities are determined based on differences between the carrying amount of the balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse.

Convertible Debentures

Convertible debentures of \$75,000 are recorded as equity as the REIT has the ability to satisfy the obligation through the issue of units. Interest on the debentures is charged against Unitholders' equity.

Executive Compensation Plan

The senior executives participate in an incentive plan that involves the issue of REIT units. A unit granted through the plan entitles the holder to receive on the vesting date the then current fair market value of the unit plus the value of the cash distributions that would have been paid on the unit if it had been issued on the date of grant assuming the reinvestment of the distribution into REIT units. The payment will be satisfied through the issuance of units. The benefit resulting from the issue of units under this plan is recorded as compensation expense, on a straight-line basis over the vesting period, based on the market price of the REIT units on the date of grant.

3. ASSET ACQUISITIONS

On July 25, 2002, the REIT issued 30,000,000 units on the Toronto Stock Exchange at \$10 per unit. The proceeds of \$300,000 together with the issuance of 11,068,910 units at a price of \$10 per unit and \$75,000 convertible debentures were utilized to acquire a portfolio of 114 Canadian hotels and a 50% interest in Choice Hotels Canada and various other licence contracts.

The net assets acquired are as follows:

Cash	\$	9,356
Restricted cash		10,000
Current assets		19,115
Hotel properties		860,412
Licence contracts		26,320
		925,203
Future income tax liability		(122,485)
Assumption of existing long-term debt		(334,775)
Current liabilities		(14,585)
	\$	453,358

The net consideration paid consists of the following:

Cash	\$	260,969
Units		110,689
Convertible debentures		75,000
Payment of land transfer tax and other acquisition costs		6,700
	\$	453,358

4. RESTRICTED CASH

Substantially all of the \$12,075 in restricted cash is being held by various mortgage lenders of the REIT, and is available to undertake capital refurbishments.

5. HOTEL PROPERTIES

	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 58,801	\$ —	\$ 58,801
Buildings	752,953	8,155	744,798
Furniture and equipment	51,025	4,310	46,715
	\$ 862,779	\$ 12,465	\$ 850,314

6. LICENCE CONTRACTS

	Cost	Accumulated Amortization	Net Book Value
Licence contracts	\$ 26,320	\$ 571	\$ 25,749

7. DEFERRED FINANCING COSTS

	Cost	Accumulated Amortization	Net Book Value
Deferred financing costs	\$ 7,313	\$ 633	\$ 6,680

8. JOINT VENTURES

The following represents the proportionate share of the REIT's interest in joint ventures:

Assets	\$ 5,488
Liabilities	2,470
Revenues	2,684
Expenses	1,500
Cash flow from:	
Operating activities	1,015
Financing activities	(16)
Investing activities	(15)

9. LONG-TERM DEBT

Mortgages payable	\$ 319,462
Less: current portion	8,976
Total long-term debt	\$ 310,486

Substantially all of the REIT's assets have been pledged as security under various debt agreements. At December 31, 2002, long-term debt has a weighted average interest rate of 7.6%. The long-term debt is repayable in blended monthly payments of principal and interest totalling \$2,610 per month, and matures at various dates from May 1, 2003 to October 1, 2018.

Scheduled repayment of long-term debt is as follows:

2003	\$ 8,976
2004	6,277
2005	4,983
2006	141,213
2007	8,061
2008 and thereafter	149,952
	\$ 319,462

The estimated fair value of the REIT's long-term debt at December 31, 2002 is approximately \$319,119. This estimate was determined by discounting expected cash flows at the interest rates currently being offered to the REIT for debt of the same remaining maturities.

Long-term debt includes \$5,990 of mortgages payable, which are subject to floating interest rates. Interest expense will increase by \$60 for every 1% increase in the base Bankers' Acceptance rate.

The REIT has a \$100,000 mortgage loan facility with its main mortgage lender available to repay mortgage debts held by its various other lenders, as they mature.

10. INCOME TAXES

The future income tax liability relates to tax and book bases differences for assets held by corporate subsidiaries of the REIT and consists of the following:

Hotel properties	\$ 118,893
Licence contracts	4,073
Financing costs	(1,233)
	\$ 121,733

The provision for income taxes is summarized as follows:

Income before income tax expense	\$ 20,183
Income tax based on a combined Federal and Provincial income tax rate of 38.34%	7,738
Tax effect of income attributable to Unitholders	(8,490)
Future income tax recovery	(752)
Large corporations tax	548
Income tax recovery	\$ (204)

In respect of the assets and liabilities of the REIT, where income is taxed directly in the hands of the Unitholders, the net book value for accounting purposes of those net assets exceeds their tax bases by an amount of approximately \$93,840.

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The REIT is committed under various equipment operating leases to minimum annual rental payments as follows:

2003	\$ 619
2004	523
2005	380
2006	238
2007	121
2008 and thereafter	26
	\$ 1,907

In addition, the REIT is committed under long-term land leases to minimum annual lease payments of approximately \$1,294. The land leases expire between 2023 and 2088. Rentals that are determined as a percentage of revenues with no minimum amounts are excluded from these figures.

Contingencies

The REIT is subject to lawsuits and claims arising in the ordinary course of business. Management believes that the resolution of such matters will not have a material adverse effect on the REIT's financial position or future results of operations.

12. UNITHOLDERS' EQUITY

The REIT was established pursuant to a declaration of trust dated January 1, 2002 when one unit was issued for ten dollars. The REIT is authorized to issue an unlimited number of units, each of which represents an equal undivided beneficial interest in any distributions from the REIT. All units are of the same class with equal rights and privileges.

On July 18, 2002 the REIT entered into an underwriting agreement whereby the REIT raised gross proceeds of \$300,000 pursuant to an initial public offering (the "Offering") through the issuance of 30,000,000 units at a price of \$10 per unit. The offering closed on July 25, 2002 ("the closing date"). Costs relating to the Offering, including underwriters' fees, were \$22,945 and have been charged directly to Unitholders' equity. At the closing date, the REIT also issued an additional 11,068,910 units at a price of \$10 per unit.

	Units	Amount
Units issued at Initial Public Offering, net of issue costs	30,000,000	\$ 277,055
Units issued to purchase hotel properties (Note 3)	11,068,910	110,689
Units issued to Trustees of the REIT	7,000	—
Total units at December 31, 2002	41,075,910	\$ 387,744

Trustee Compensation Plan

The members of the Board of Trustees receive 50% of their annual retainer in units (based on the then current market price of the units). The REIT has set aside 100,000 units in reserve for this purpose.

Executive Compensation Plan

The senior executives participate in the executive compensation plan under which units are granted by the Board of Trustees from time to time. The REIT has

reserved a maximum of 1,000,000 units for issuance under the plan. A unit granted through the plan entitles the holder to receive on the vesting date the then current fair market value of the unit plus the value of the cash distributions that would have been paid on the unit if it had been issued on the date of grant assuming the reinvestment of the distribution into REIT units. The payment will be satisfied through the issuance of units.

On July 17, 2002, the Board of Trustees approved the granting of 49,500 units to the senior executives for services rendered. The units granted on July 17, 2002 vest equally over a three-year period on each annual anniversary date of grant.

The following table summarizes the status of the executive compensation plan at December 31, 2002:

Date of Grant	Executive Units Declared	Units Accumulated from Distributions	Total Units
July 17, 2002	49,500	2,108	51,608

Convertible Debentures

The convertible debentures bear interest at the rate of 9.75% per annum payable semi-annually in arrears and mature on June 30, 2007. Each \$1 principal amount of convertible debentures is convertible at the option of the holder into 93.0233 units (representing a conversion price of \$10.75 per unit). The convertible debentures are redeemable, in whole or from time to time in part, on and after July 1, 2005 at the option of the REIT, provided that the volume-weighted average trading price of the units for a stipulated period prior to the date on which the notice of redemption is given exceeds 115% of the conversion price. The REIT has the option to satisfy its obligation to pay the principal amount of the convertible debentures due at maturity or upon redemption, in whole or in part, by issuing the number of units equal to the principal amount of convertible debentures then outstanding divided by 95% of the volume-weighted average trading price of the units for a stipulated period prior to the date of redemption or maturity, as applicable.

The convertible debenture balance has been recorded as equity as the REIT has the ability to satisfy its obligations (principal and interest) under the terms of such instrument through the issue of units.

13. PER UNIT INFORMATION

Net income per unit calculations are based on the following:

			Weighted Average Units
Net income	\$	20,387	41,075,910
Interest on convertible debentures		(3,170)	–
Net income – basic		17,217	41,075,910
Dilutive effect of executive compensation plan		–	7,268
Net income – diluted	\$	17,217	41,083,178

The convertible debentures have been excluded from the diluted calculation because the impact of this conversion would not be dilutive.

Distributable income per unit calculations are based on the following (Note 14):

			Weighted Average Units
Distributable income – basic	\$	25,263	41,075,910
Interest on convertible debentures		3,170	6,976,744
Dilutive effect of executive compensation plan		–	7,268
Distributable income – diluted	\$	28,433	48,059,922

Funds from operations per unit calculations are based on the following:

			Weighted Average Units
Funds from operations	\$	32,743	41,075,910
Interest on convertible debentures		(3,170)	–
Funds from operations – basic		29,573	41,075,910
Interest on convertible debentures		3,170	6,976,744
Dilutive effect of executive compensation plan		–	7,268
Funds from operations – diluted	\$	32,743	48,059,922
Funds from operations per unit			
– basic	\$	0.72	
– diluted	\$	0.68	

14. DISTRIBUTABLE INCOME

Distributions to Unitholders are computed based on distributable income as defined by the Declaration of Trust.

Distributable income means net income in accordance with Canadian generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including adding back depreciation and amortization, amortization of fair value debt adjustment and future income tax expense, excluding any gains or losses on the disposition of real property, future income tax benefits and deducting the amount calculated, at 4% of hotel revenues, for the reserve for the replacement of furniture, fixtures and equipment and capital improvements and the interest on convertible debentures that is not included in the computation of net income, and any other adjustments determined by the trustees of the REIT in their discretion.

Net income	\$	20,387
Add (deduct)		
Depreciation and amortization		13,669
Amortization of fair value debt adjustment		(574)
Future income tax recovery		(752)
Reserve for replacement of furniture, fixtures and equipment and capital improvements		(4,369)
Non-cash executive compensation		72
Interest on convertible debentures		(3,170)
		4,876
Distributable income	\$	25,263
Distributable income per unit (Note 13)		
– basic	\$	0.62
– diluted	\$	0.59

Distributable income is a measure of cash flow that is not required under Canadian generally accepted accounting principles, and, accordingly, may not be comparable to similar measures used by other organizations. Distributable income per unit has been calculated on a basis consistent with that prescribed by Canadian generally accepted accounting principles for calculating earnings per unit.

15. FINANCIAL INSTRUMENTS

Fair Value

The REIT's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities and long-term debt. The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short term nature of these financial assets and liabilities.

The fair value of long-term debt is based on management estimates for mortgages payable. The management estimates are based on discounting cash flows required under the mortgages at the interest rate currently estimated to be available for loans with similar terms. Based on these estimates, the fair value of the REIT's long-term debt as at December 31, 2002 is less than its carrying value by approximately \$343.

Interest Rate Risk

Substantially all of the REIT's long-term debt bears interest at fixed rates and there are no maturities of long-term debt until May 1, 2003. Accordingly, the REIT is not currently subject to any material interest rate risk.

Credit Risk

Due to the nature of the hotel business, the REIT is not exposed to any significant credit risk.

16. MANAGEMENT AGREEMENTS

The REIT has entered into a Management Agreement for hotel management and accounting services and an Administrative Services Agreement ("the Agreements") with Westmont Hospitality Management Canada Limited ("Westmont"). The Management Agreements have an initial term of 10 years with two successive five-year renewal terms, subject to the consent of Westmont and approval by the REIT. The Agreements provide for the payment of an annual management fee to Westmont in an amount equal to 3.375% of gross revenues during

the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if it achieves certain hurdles for Distributable Income per Unit in excess of the forecast Distributable Income per Unit contained in the prospectus. No management incentive fees were earned in the period.

In addition to the base management fee and incentive fee, Westmont is entitled to reasonable fees based on a percentage of the cost of purchasing certain goods and supplies and certain construction costs and capital expenditures, fees for accounting services, reasonable out-of-pocket costs and expenses, (other than general and administrative expenses or overhead costs except as otherwise provided in the Administrative Services Agreement) and project management and general contractor services related to hotel renovations incurred by Westmont.

Westmont is controlled by a minority Unitholder of the REIT. The Management Agreements will expire on July 25, 2012. During the period ended December 31, 2002, the fees charged to the REIT pursuant to the Management Agreements were as follows:

Management fees	\$	3,693
Accounting services (included in hotel operating expenses)		734
Administrative services (included in corporate and administrative expenses)		234
Project management and general contractor services (capitalized in hotel properties)		69
	\$	4,730

In addition, salaries of REIT employees paid by Westmont and reimbursed by the REIT, were \$170. Included in accounts payable and accrued liabilities are amounts outstanding at December 31, 2002 totalling \$722.

17. SEGMENTED FINANCIAL INFORMATION

The REIT operates hotel properties throughout Canada. Information related to these properties by geographic segment is presented below. The accounting policies used in the preparation of the segmented information

are the same as those described for the REIT in Note 2 – Significant Accounting Policies. The REIT primarily evaluates operating performance based on hotel operating income. All key financing, investing and capital allocation decisions are centrally managed.

	Western		Ontario		Quebec		Atlantic		Total
Hotel revenues	\$	12,388	\$	58,491	\$	25,916	\$	12,435	\$ 109,230
Hotel expenses		8,002		35,162		15,139		6,398	64,701
Hotel operating income	\$	4,386	\$	23,329	\$	10,777	\$	6,037	\$ 44,529
Hotel properties	\$	61,714	\$	532,931	\$	171,010	\$	84,659	\$ 850,314
Capital expenditures	\$	356	\$	1,408	\$	435	\$	168	\$ 2,367

InnVest Portfolio

COMFORT INNS

Hotel	Address	Year Built	Guest Rooms
Alma Comfort Inn	870 avenue du Pont Sud Alma, Quebec	1989	61
Amherst Comfort Inn	143 South Albion Street Amherst, Nova Scotia	1988	61
Ancienne-Lorette Comfort Inn	1255 boulevard Duplessis Quebec City, Quebec	1985	59
Baie-Comeau Comfort Inn	745 boulevard Lafleche Baie-Comeau, Quebec	1989	61
Beauport Comfort Inn	240 boulevard Ste. Anne Beauport, Quebec	1990	80
Boucherville Comfort Inn	96 boul. de Montagne Boucherville, Quebec	1986	100
Brampton Comfort Inn	5 Rutherford Road South Brampton, Ontario	1986	108
Brandon Comfort Inn	925 Middleton Avenue Brandon, Manitoba	1987	81
Bridgewater Comfort Inn	49 North Street Bridgewater, Nova Scotia	1990	62
Brossard Comfort Inn	7863 boulevard Taschereau Brossard, Quebec	1988	100
Burlington Comfort Inn	3290 South Service Road Burlington, Ontario	1982	99
Cambridge Comfort Inn	220 Holiday Inn Drive Cambridge, Ontario	1986	83
Campbellton Comfort Inn	111 Val D'Amour Road Campbellton, New Brunswick	1988	60
Charlottetown Comfort Inn	112 Trans Canada Hwy. Charlottetown, Prince Edward Island	1989	81
Chatham Comfort Inn	1100 Richmond Street Chatham, Ontario	1986	81
Chicoutimi Comfort Inn	1595 boulevard Talbot Chicoutimi, Quebec	1988	81
Chilliwack Comfort Inn	45405 Luckakuck Way Chilliwack, British Columbia	1991	83
Cobourg Comfort Inn	121 Densmore Road Cobourg, Ontario	1988	62
Corner Brook Comfort Inn	41 Maple Valley Road Corner Brook, Newfoundland	1988	78
Dartmouth Comfort Inn	456 Windmill Road Dartmouth, Nova Scotia	1984	81
Dorval Comfort Inn	340 avenue Michel Jasmin Dorval, Quebec	1988	98
Downsview Comfort Inn	66 Norfinch Drive North York, Ontario	1983	144
Drummondville Comfort Inn	1055 rue Hains Drummondville, Quebec	1985	59
Dryden Comfort Inn	522 Government Road Dryden, Ontario	1988	62
Edmonton Comfort Inn	17610 - 100 th Avenue Edmonton, Alberta	1990	100
Edmundston Comfort Inn	5 Bateman Avenue Edmundston, New Brunswick	1987	81
Fredericton Comfort Inn	255 Prospect Street West Fredericton, New Brunswick	1984	101
Gatineau Comfort Inn	630 boulevard la Gappe Gatineau, Quebec	1988	81
Guelph Comfort Inn	480 Silvercreek Parkway Guelph, Ontario	1986	80
Hamilton Comfort Inn	173/183 Centennial Parkway N. Hamilton, Ontario	1984	60
Huntsville Comfort Inn	86 King William Street Huntsville, Ontario	1989	73
Kanata Comfort Inn	222 Hearst Way Kanata, Ontario	1984	146
Kapuskasing Comfort Inn	172 Government Road East Kapuskasing, Ontario	1987	66
Kenora Comfort Inn	1230 Highway 17 East Kenora, Ontario	1990	76
Kingston Comfort Inn (Warne Crescent)	55 Warne Crescent Kingston, Ontario	1987	103
Kirkland Lake Comfort Inn	455 Government Road West Kirkland Lake, Ontario	1987	65
Laval Comfort Inn	2055 Autoroute des Laurentides Laval, Quebec	1988	121
Lèvis Comfort Inn	10 du Vallon est Levis, Quebec	1988	100
London Comfort Inn	1156 Wellington Road London, Ontario	1982	79
Midland Comfort Inn	980 King Street Midland, Ontario	1990	60
Miramichi Comfort Inn	201 Edward Street Miramichi, New Brunswick	1988	69
Mississauga Comfort Inn	1500 Matheson Boulevard East Mississauga, Ontario	1982	121
Moncton Magnetic Hill Comfort Inn	2495 Mountain Road Moncton, New Brunswick	1984	59
Moncton Maplewood Comfort Inn	20 Maplewood Drive Moncton, New Brunswick	1988	78
New Glasgow Comfort Inn	740 Westville Road New Glasgow, Nova Scotia	1987	62
Newmarket Comfort Inn	1230 Journey's End Circle Newmarket, Ontario	1988	102
Orillia Comfort Inn	75 Progress Drive Orillia, Ontario	1989	80
Oshawa Comfort Inn	605 Bloor Street West Oshawa, Ontario	1984	80
Ottawa East Comfort Inn	1252 Michael Street Ottawa East, Ontario	1982	69
Owen Sound Comfort Inn	995 9 th Avenue East Owen Sound, Ontario	1987	60
Parry Sound Comfort Inn	120 Bowes Street Parry Sound, Ontario	1987	61
Pembroke Comfort Inn	959 Pembroke Street East Pembroke, Ontario	1985	61
Pickering Comfort Inn	533 Kingston Road Pickering, Ontario	1985	147
Pointe Claire Comfort Inn	700 boulevard St. Jean Pointe Claire, Quebec	1985	100
Prince Albert Comfort Inn	3863 2 nd Avenue West Prince Albert, Saskatchewan	1987	62
Regina Comfort Inn	3221 East Eastgate Drive Regina, Saskatchewan	1986	99
Rimouski Comfort Inn	455 boulevard St-Germain ouest Rimouski, Quebec	1988	81
Rivière-du-Loup Comfort Inn	85 boulevard Cartier Rivière-du-Loup, Quebec	1988	69
Rouyn-Noranda Comfort Inn	1295 avenue Larivière Rouyn-Noranda, Quebec	1988	80
Saint John Comfort Inn	1155 Fairville Blvd. St. John, New Brunswick	1984	59
Saskatoon Comfort Inn	2155 Northridge Drive Saskatoon, Saskatchewan	1986	80
Sault Ste. Marie Comfort Inn	333 Great Northern Road Sault Ste. Marie, Ontario	1983	82
Sept-Iles Comfort Inn	854 boulevard Laure Sept-Iles, Quebec	1989	61

InnVest Portfolio continued

Sherbrooke Comfort Inn	4295 boulevard Bourque Sherbrooke, Quebec	1985	59
Simcoe Comfort Inn	85 The Queensway East Simcoe, Ontario	1986	61
St. Catharines Comfort Inn	2 Dunlop Drive St. Catharines, Ontario	1987	100
Ste. Foy Comfort Inn	7320 boulevard Wilfrid-Hamel Sainte Foy, Quebec	1988	79
Sudbury 2nd Avenue Comfort Inn	440 2nd Avenue North Sudbury, Ontario	1989	81
Sudbury Regent Street Comfort Inn	2171 Regent Street South Sudbury, Ontario	1986	80
Swift Current Comfort Inn	1510 South Service Road East Swift Current, Saskatchewan	1987	74
Sydney Comfort Inn	368 Kings Road Sydney, Nova Scotia	1987	62
Thetford Mines Comfort Inn	123 boulevard Smith Sud Thetford Mines, Quebec	1989	63
Thunder Bay Comfort Inn	660 West Arthur Street Thunder Bay, Ontario	1987	80
Timmins Comfort Inn	939 Algonquin Boulevard East Timmins, Ontario	1987	91
Trenton Comfort Inn	68 Monogram Place Trenton, Ontario	1988	76
Trois-Rivières Comfort Inn	6255 rue Corbeil Trois-Rivières, Quebec	1988	80
Truro Comfort Inn	12 Meadow Drive Truro, Nova Scotia	1988	81
Val d'Or Comfort Inn	1665 Troisième Avenue Val d'Or, Quebec	1988	81
Waterloo Comfort Inn	190 Weber Street North Waterloo, Ontario	1987	85
Windsor Dougall Avenue Comfort Inn	2955 Dougall Avenue Windsor, Ontario	1984	80
Windsor Huron Church Comfort Inn	2765 Huron Church Road Windsor, Ontario	1987	100
Winnipeg Airport Comfort Inn	1770 Sargent Avenue Winnipeg, Manitoba	1987	81
Winnipeg South Comfort Inn	3109 Pembina Highway Winnipeg, Manitoba	1986	85
Yarmouth Comfort Inn	96 Starr's Road Yarmouth, Nova Scotia	1988	80

QUALITY SUITES/QUALITY INNS

Hotel	Address	Year Built	Guest Rooms
Laval Quality Suites	2035 Autoroute des Laurentides Laval, Quebec	1991	115
London Quality Suites	1120 Dearness Drive London, Ontario	1990	118
Montreal Quality Inn	1214 rue Crescent Montreal, Quebec	1966	96
Pointe Claire Quality Suites	6300 Trans Canada Hwy. Pointe Claire, Quebec	1990	162
Quebec City Quality Suites	1600 rue Bouvier Quebec City, Quebec	1989	119
Toronto Airport Quality Suites	262 Carlingview Drive Toronto, Ontario	1989	254
Whitby Quality Suites	1700 Champlain Avenue Whitby, Ontario	1990	104
Windsor Quality Suites	250 Dougall Avenue Windsor, Ontario	1990	128

QUALITY HOTELS

Hotel	Address	Year Built	Guest Rooms
Anjou Quality Hotel	8100 avenue Neuville Anjou, Quebec	1990	158
Bloor Quality Hotel	280 Bloor Street West Toronto, Ontario	1990	209
Lombard Street Quality Hotel Toronto	111 Lombard Street Toronto, Ontario	1988	196
Montréal Quality Hotel	3440 avenue du Parc Montreal, Quebec	1989	140
Ottawa Quality Hotel	290 Rideau Street Ottawa, Ontario	1989	212
St. John's Quality Hotel	2 Hill O'Chips St. John's, Newfoundland	1990	160

TRAVELODGES

Hotel	Address	Year Built	Guest Rooms
Travelodge Burlington	950 Walkers Line Burlington, Ontario	1985	116
Travelodge Calgary Airport	2750 Sunridge Boulevard NE Calgary, Alberta	1982	203
Travelodge Calgary - Macleod Trail	9206 Macleod Trail South Calgary, Alberta	1980	254
Travelodge Edmonton South	10320 - 45 th Avenue South Edmonton, Alberta	1977	219
Travelodge Edmonton West	18320 Stony Plain Road Edmonton, Alberta	1980	220
Travelodge Ingersoll	20 Samnah Crescent Ingersoll, Ontario	1989	98
Travelodge North Bay	1525 Seymour Street North Bay, Ontario	1989	100
Travelodge North York	50 Norfinch Drive Toronto, Ontario	1986	183
Travelodge Oshawa	940 Champlain Avenue Oshawa, Ontario	1989	120
Travelodge Ottawa East	1486 Innes Street Gloucester, Ontario	1984	129
Travelodge Regina East	1110 East Victoria Avenue Regina, Saskatchewan	1979	181
Travelodge Scarborough	20 Milner Business Court Toronto, Ontario	1984	155
Travelodge Sudbury	1401 Paris Street Sudbury, Ontario	1990	140

OTHER HOTELS

Hotel	Address	Year Built	Guest Rooms
Best Western North Bay	700 Lakeshore Drive North Bay, Ontario	1977	130
Mississauga Ramada Inn	5599 Ambler Drive Mississauga, Ontario	1982	222
North York Holiday Inn Express	30 Norfinch Drive North York, Ontario	1989	163

Trustees

Majid Mangalji (b)
Chairman of the Board of Trustees
President
Westmont Group

Frank Anderson, FCA (a.b.c.)
President
LIN Solutions, Inc.

Brian C. Collyer (b)
Vice President Real Estate
Principal Investment
Goldman, Sachs & Co.

Morton Gross, Q.C. (a.b.d.)
Senior Partner
Borden Ladner Gervais LLP

Michael P. Kitt (a.b.c.d.)
Executive Vice President Development
The Cadillac Fairview Corporation Limited

Minhas N. Mohamed (a.b.c.d.)
Managing Partner
MM Venture Partners

Lauren J. Zucker (b)
Vice President Real Estate
Principal Investment
Goldman, Sachs & Co.

- a. Independent Trustee
- b. Member of Investment Committee
- c. Member of Audit Committee
- d. Member of Compensation, Compliance and Governance Committee

Officers

Kenneth D. Gibson
President and Chief Executive Officer

Tamara L. Lawson
Chief Financial Officer and Secretary

Corporate and Unitholder Information

CORPORATE OFFICE

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: INN.un

REGISTRAR AND TRANSFER AGENT

Inquiries regarding change of address, registered holdings, transfers and duplicate mailings should be directed to the following:

Computershare Trust Company of Canada
100 University Avenue
11th Floor
Toronto, Ontario
Phone: 1-800-663-9097
Fax: 416-981-9800

AUDITORS

Deloitte & Touche LLP
Toronto, Ontario

LEGAL COUNSEL

Davies Ward Phillips & Vineberg LLP
Toronto, Ontario

INVESTOR RELATIONS

Email: investor@innvestreit.com

ANNUAL GENERAL MEETING

11:00 a.m. Eastern Time
Wednesday, May 21, 2003
The Design Exchange
Patty Watt Room
234 Bay Street
Toronto, Ontario, Canada

DISTRIBUTION REINVESTMENT PLAN

Unitholders may acquire units by reinvesting cash distributions without paying brokerage commissions or administrative charges. For general information concerning the Distribution Reinvestment Plan or for a change of address, please contact the transfer agent and registrar.

